

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MARC SPITZER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE DETERMINATION OF
9 A RATE BASE VALUE FOR MIRACLE VALLEY
10 WATER COMPANY, COCHISE WATER
11 COMPANY, HORSESHOE RANCH WATER
12 COMPANY, CRYSTAL WATER COMPANY,
13 MUSTANG WATER COMPANY, CORONADO
14 ESTATES WATER COMPANY AND SIERRA
15 SUNSET WATER COMPANY, OWNED BY
16 JOHNNY A. MCLAIN, AND PERFORMANCE OF
17 A RECONSTRUCTED COST NEW STUDY TO
18 AID IN THE DETERMINATION OF THE RATE
19 BASE VALUE.

DOCKET NO. W-01646A-05-0506
DOCKET NO. W-01868A-05-0506
DOCKET NO. W-02235A-05-0506
DOCKET NO. W-02316A-05-0506
DOCKET NO. W-02230A-05-0506
DOCKET NO. W-01629A-05-0506
DOCKET NO. W-02240A-05-0506

DECISION NO. _____

OPINION AND ORDER

13 DATE OF HEARING:

November 16, 2005

14 PLACE OF HEARING:

Tucson, Arizona

15 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

16 IN ATTENDANCE:

Kristen K. Mayes, Commissioner

17 APPEARANCES:

Mr. Steven Wene, MOYES STOREY, on
behalf of John McLain, intervenor; and

Mr. Jason Gellman, Staff Attorney Legal
Division, on behalf of the Utilities
Division.

20 **BY THE COMMISSION:**

21 * * * * *

22
23 Having considered the entire record herein and being fully advised in the premises, the
24 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:
25

26 **FINDINGS OF FACT**

27 1. At its July 12, 2005 Open Meeting, the Commission directed its Utilities Division
28 Staff ("Staff") to open the above-captioned dockets to perform a reconstructed cost new ("RCN")

1 study to assist in the determination of a rate base value for the following seven water systems located
2 in Cochise County, Arizona: Miracle Valley Water Company, Inc. ("Miracle Valley"), Cochise
3 Water Co. ("Cochise"), Horseshoe Ranch Water Company ("Horseshoe Ranch"), Crystal Water
4 Company ("Crystal"), Mustang Water Company ("Mustang"), Coronado Estates Water Company
5 ("Coronado Estates"), and Sierra Sunset Water Company ("Sierra Sunset"), all of which are owned or
6 operated by Johnny A. McLain (collectively "McLain Water Systems" or "Companies").

7 2. The McLain Water Systems serve a total of approximately 1,205 customers in areas
8 around Huachuca City and Sierra Vista.¹

9 3. On September 16, 2003, the Commission issued Decision No. 66241, an Order to
10 Show Cause and Order for Interim Relief ("OSC") against the McLain Water Systems. The OSC
11 was based on Arizona Department of Environmental Quality ("ADEQ") Notice of Violations
12 ("NOVs") and a July 1, 2004 compliance report that identified numerous and major deficiencies
13 causing the systems to operate in violation of state law and in manner that endangered the public
14 health, safety or welfare. Among others things, Decision No. 66241 authorized Staff to appoint an
15 Interim Manager for the McLain Water Systems.

16 4. On October 23, 2003, Johnny and Linda McLain, the Respondents in the OSC action,
17 filed with the Commission a Notice of Bankruptcy, indicating that on July 30, 2003, McLain had
18 filed for relief under Title 11 of the United States Code, initiating a Chapter 13 proceeding.

19 5. On May 17, 2004, the Bankruptcy Court granted limited relief from the automatic
20 stay, and found that the Commission had authority to appoint an interim manager to ensure the safe
21 and reasonable operation and management of the McLain Water Systems.

22 6. On May 6, 2004, Staff and Arizona Small Utilities Association ("ASUA") entered into
23 an agreement for ASUA to act as the Interim Manager for the McLain water systems.

24 7. The Bankruptcy Court in *In re Johnny A. McLain, et al.*, Case No. 4-03-bk-04125-
25

26 ¹ Mustang serves approximately 70 customers; Crystal serves approximately 65 customers; Sierra Sunset serves
27 approximately 30 customers; Coronado Estates serves approximately 195 customers; Miracle Valley services
28 approximately 255 customers; Horseshoe Ranch serves approximately 220 customers; and Cochise serves approximately
370 customers.

1 TUC-EWH, approved an Asset Purchase Agreement with Algonquin Water Resources, Inc.
2 (“Algonquin”)² that sets the value of the McLain Water Systems at \$1,000,000, but provides that the
3 price is subject to adjustment depending on the rate base value established by the Commission.

4 8. The Asset Purchase Agreement provides that the Bankruptcy Court reserves a right to
5 cancel the sale if the Commission determines that the rate base value is less than \$800,000.

6 9. Commission Utilities Division Staff (“Staff”) performed a Reconstruction Cost New
7 (“RCN”) study to assist in the determination of a rate base value. Staff filed its Staff Report
8 containing the results of its RCN study on September 30, 2005.

9 10. By Procedural Order dated September 28, 2005, a hearing was set for November 16,
10 2005 at the Commission’s offices in Tucson, Arizona.

11 11. Pursuant to the September 28, 2005 Procedural Order, ASUA mailed notice of the
12 hearing to all customers of the McLain Water Systems on October 12, 2005.

13 12. The Commission granted intervention to John McLain in this proceeding on
14 November 8, 2005.

15 13. The Hearing convened as scheduled on November 16, 2005. Mr. John Chelus,
16 Utilities Engineer and the author of the Staff Report, was the only witness.

17 14. Reconstruction Cost New (“RCN”) is the cost, on the date of value, of constructing a
18 replica of the asset. Reconstruction Cost New Less Depreciation (“RCND”) is the depreciated
19 reconstruction cost new of the used and useful property (exclusive of contributions and/or advances
20 in aid of construction) at a particular point in time. Once the RCN value is determined, the
21 depreciated value of the assets is determined by estimating the age of the existing asset and applying
22 appropriate depreciation values as well as subtracting all physical, functional and technological
23 obsolescence. The asset must be “used and useful” for the water system to be included in the RCN
24 study. The asset values are then added to the land values.

25 15. Staff determined the RCN and RCND value of the McLain Water Systems by first
26 collecting as much information as possible from annual reports, old inspection reports, prior
27

28 ² Algonquin owns the Bells Vista Water Co. located in close proximity to some of the McLain Water Systems.

1 Commission decisions, Certificates of Convenience and Necessity ("CC&N") records, as well as
2 from Arizona Department of Environmental Quality ("ADEQ") and the Arizona Department of
3 Water Resources ("ADWR") records, interviewing ADEQ engineers and from discussions with
4 ASUA. Staff physically inspected all sites, measured tanks and fences, and noted the condition of the
5 assets. Staff estimated plant values by contacting equipment suppliers, material suppliers, well
6 drillers and using resources such as "RS Means Building Construction Cost Data" and the Handy-
7 Whitman Indexes of Cost Trending. Staff estimated equipment age by reviewing the dates the
8 CC&Ns were granted, physical evaluation, discussions with ADEQ engineers, review of ADWR well
9 log records, reviewing old Staff Reports and discussions with the interim operator. Staff determined
10 depreciated values by using the typical plant service lives utilized by the Utilities Division for water
11 utility plant assets.

12 16. Staff determined whether plant assets were used and useful. If an asset was damaged
13 such that it was unserviceable or unsafe, or not in service, Staff did not give it a value.

14 17. Staff relied on the land parcels identified by the office of the Cochise County
15 Treasurer and Tax Collector as belonging to the McLain Water Systems. Staff states that in normal
16 ratemaking, land values are not trended, such that if a water company paid \$1,000 for a parcel in
17 1980, for rate making purposes it is valued at \$1,000 in 2005. In this case, Staff had no records of the
18 original cost of the land. Thus, Staff utilized 50 percent of the Fair Current Value ("FCA") of the
19 parcel as reflected in the Cochise County property assessor's record. Staff states these values are
20 what the assessor's office has determined are the current market values for the properties.

21 18. Staff reports that the McLain Water Systems are in serious disrepair. Most of the
22 wells were drilled originally as domestic wells which have small diameter casings and were drilled to
23 limited depths. The only systems with storage tanks and booster pumps are the Cochise and
24 Horseshoe Ranch systems. The other five systems rely on the well pump to pressurize the system,
25 which is very inefficient and causes the well pump to cycle on and off too often leading to premature
26 pump failure. Many of the pressure tanks are leaking at the welds and/or have patches welded to
27 them, which Staff states is a serious safety hazard. Staff reports many of the well sites are not fenced
28 and none of the wells are metered. Staff further states that a majority of the pipe installed is Poly

Vinyl Chloride ("PVC") irrigation pipe which is not appropriate for potable water systems. Some of the very old pipe is asbestos cement pipe which is no longer manufactured or allowed for use. Much of the location of the piping is unknown as no plans were drawn. It appears that much of the distribution piping strays outside the official CC&N boundaries. The Sierra Sunset system has no record of a CC&N and has no customer meters. The systems are plagued by numerous outages caused by well failures, line breaks, power outages, possible sabotage and demand exceeding supply. None of the McLain Water Systems are chlorinated, which is serious because the poor condition of the systems makes them prone to microbial contamination.

19. The purchaser of the McLain Water Systems will need to invest a significant amount to bring these systems into compliance. Algonquin estimates that it will need to infuse at least \$500,000, and perhaps as much as \$1,250,000. Staff agrees that Algonquin, or any purchaser, will need to add storage facilities for every system; replace mains and valves; add well capacity; map the system and add operational automation for reliable operation.

20. A copy of Staff's RCN study for each water system is attached as Exhibit A hereto, and incorporated herein by reference.

21. Staff's recommended RCN and RCND rate base values for the McLain Water Systems are as follows:

	<u>RCN</u>	<u>RCND</u>
Mustang Water Company	\$96,463.81	\$20,272.43
Crystal Water Company	\$154,382.40	\$17,503.35
Sierra Sunset Water Company	\$56,156.40	\$19,061.84
Coronado Estates Water Company	\$368,504.10	\$25,194.20
Miracle Valley Water Company, Inc.	\$345,947.15	\$18,748.72
Horseshoe Ranch Water Company	\$412,816.90	\$131,965.86
Cochise Water Company	<u>\$1,008,536.43</u>	<u>\$307,395.50</u>
Total	\$2,442,819.19	\$540,141.90

1 22. Staff recommends that the plant in service rate base for the McLain Water Systems not
2 be greater than the RCND value.

3 23. On October 28, 2005, John McLain filed a Response to the Staff Report. McLain
4 argues that in employing 50 percent of the Fair Current Value ("FCV") of the real property, Staff
5 arbitrarily undervalued the McLain Water Systems. McLain asserts that the actual fair value of the
6 systems should be utilized. McLain also asserts that the value of other water system property
7 interests, such as easements, right-of-ways, and water rights was not, but should be, included in the
8 rate base.

9 24. McLain did not testify or offer a witness at the hearing, nor did he provide evidence of
10 any kind that there are easements, right-of ways, water rights or other assets that should be included
11 in the rate base value determination. (Tr. at 18- 19).

12 25. Staff testified that they could find no evidence that there were easements, right-of
13 ways, water rights or other assets that should be included in the rate base determination.

14 26. During public comment, Charles Irwin, Chief Civil Deputy for Cochise County, spoke
15 on behalf of the County and expressed the County's concerns about the valuation offered by Staff.
16 The County asserted that the Bankruptcy Court would be interested in the fair market value of the
17 property, rather than the RCND figure proposed by Staff. The County submitted the plan that was
18 adopted by the Bankruptcy Court. The County claims that the plan cannot be satisfied with the
19 RCND valuation recommended by Staff. The County was particularly concerned that the value that
20 Staff utilized for the real property was less than fair market value as reflected on the property tax
21 roles. The County argued that the FCV is a conservative estimate of fair Markey value. The County
22 feared that if the Bankruptcy Court did not approve the sale, the bankruptcy would be converted to a
23 Chapter 7 proceeding and ultimately the trustee would abandon the McLain Water Systems assets
24 because they would add no value to the estate as the secured debt would be greater than the value.

25 27. Staff believed that, based upon the factors set forth in the Commission's Water Task
26 Force Report on the Acquisition of Class D and Class E Water Systems, the Commission could
27 approve a rate base value greater than the RCND value.

28 28. The Water Task Force Report discusses six conditions a company must prove by a

1 preponderance of the evidence in order to obtain an acquisition adjustment³:

2 (a) The Acquired Company must be a Class D or E utility, i.e. have less than \$250,000
3 of operating revenue in the most recent calendar year;

4 (b) The Acquisition will not negatively affect the viability of the Acquirer;

5 (c) The Acquired System's customers will receive improved service in a reasonable
6 timeframe;

7 (d) The purchase price is fair and reasonable (even though that price may be more
8 than the Original Cost Less Depreciation Book Value) and conducted through an arm's length
9 negotiation;

10 (e) The recovery period for the acquisition adjustment should be for a specific
11 minimum time; and

12 (f) The acquisition is in the public interest.

13 29. The Commission has not approved the Water Task Force Report.

14 30. In addition to the assets identified in the Staff Report, there was discussion at the
15 hearing that \$50,000 in federal funds are being made available to the McLain Water Systems to assist
16 correcting infrastructure deficiencies, as well as \$50,000 in the form of a WIFA grant to help map the
17 system.

18 31. Staff has identified and used its best and reasonable efforts to value all of the assets
19 that are being utilized to provide service to the customers of the McLain Water Systems. There is no
20 evidence that Staff did not include assets in its RCN study, nor is there any evidence that refutes
21 Staff's determination of the book value of the assets (other than the real property assets).

22 32. Staff identified some assets that are currently used and useful, but which have been
23 fully depreciated, and thus are given a zero value in Staff's RCN study.

24 33. There is no direct evidence of the original purchase price of the real property that the
25 McLain Water Systems are utilizing to provide service. Staff attempted to estimate the Original Cost

26 ³ In traditional rate making, the Commission allows a rate of return on the assets used and useful in the provision of utility
27 service. When an entity purchases utility assets above their book value, the amount of the difference between the
28 purchase price and the book value is an acquisition adjustment. The Commission only allows a return on an acquisition
adjustment in extraordinary circumstances. The present case, may constitute such extraordinary circumstances, but we
are not setting rates in this proceeding.

1 of the real property based on the Fair Current Value as reflected on the County tax roles. Staff
2 utilized one half of the Fair Current Value of the real property, or \$208,751.50, as a substitute for the
3 Original Cost of that property. Staff's approach was not unreasonable as part of its RCN study.

4 34. Some interested entities argue that the Commission should be concerned with Fair
5 Market Value rather than Original Cost. These entities claim that FCV is the best estimate of Fair
6 Market Value available.

7 35. According to the Staff Report, taxes owed on the McLain Water System real property
8 total \$636,314.08.

9 36. Those entities arguing for an increased value are Cochise County, the largest debtor in
10 the Bankruptcy, and McLain, the Debtor.

11 37. The rate base valuation we determine in this proceeding will be utilized to determine
12 the purchase price of the McLain Water Systems and likely will affect a future rate case.

13 38. In opening the current docket to determine the rate base of the McLain Water Systems,
14 the Commission ordered Staff to perform a RCN study to aid in the determination of the rate base.
15 While the RCN study is an important component in the calculation of the rate base, it is not the only
16 factor that can or should be used in determining the value of the rate base.

17 39. Currently the assets of the McLain Water Systems are in great disrepair and in their
18 current state threaten the health and safety of the customers of the McLain Water Systems.

19 40. It is in the public interest to find a buyer for the McLain Water Systems who is able to
20 repair the systems and provide adequate service to the residents as soon as possible.

21 41. After weighing all of the evidence before us, the Fair Current Value of the real
22 property is a reasonable estimate of the value of the real property of the McLain Water Systems and
23 should be utilized in determining the rate bases of the McLain Water Systems. Thus, for purposes of
24 assisting the Bankruptcy Court, we find the rate bases for the McLain Water Systems to be as
25 follows:

1		<u>Rate Base</u>
2	Mustang Water Company	\$25,272.43
3	Crystal Water Company	\$20,003.35
4	Sierra Sunset Water Company	\$19,561.84
5	Coronado Estates Water Company	\$31,567.20
6	Miracle Valley Water Company, Inc.	\$23,998.72
7	Horseshoe Ranch Water Company	\$146,965.86
8	Cochise Water Company	<u>\$481,524.00</u>
9	Total	\$748,893.40

10
11 42. The circumstances precipitating the necessity of our determination herein are unique
12 and unprecedented.

13 CONCLUSIONS OF LAW

14 1. The McLain Water Systems are public service corporations within the meaning of
15 Article XV of the Arizona Constitution and A.R.S. §§ 40-202, 40-203, 40-221, 40-222, 40-241, 40-
16 251, 40-281, , 40-285, 40-321, 40-322 and 40-331.

17 2. The Commission has jurisdiction over the McLain Water Systems and of the subject
18 matter of these Dockets.

19 3. Notice of the proceeding was provided in the manner prescribed by law.

20 4. For the purpose of assisting the Bankruptcy Court in determining a purchase price for
21 the McLain Water Systems, the rate base finding set forth in Finding of Fact No. 41 is fair and
22 reasonable and in the public interest.

23 ...

24 ...

25 ...

26 ...

27 ...

28 ...

ORDER

IT IS THEREFORE ORDERED that for the purpose of assisting the Bankruptcy Court in determining a purchase price for the McLain Water Systems, the Arizona Corporation Commission adopts the rate base finding set forth herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2005.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT

DISSENT

JR:mj

SERVICE LIST FOR:

MIRACLE VALLEY WATER COMPANY
COCHISE WATER COMPANY
HORSESHOE RANCH WATER COMPANY
CRYSTAL WATER COMPANY
MUSTANG WATER COMPANY
CORONADO ESTATES WATER COMPANY
SIERRA SUNSET WATER COMPANY

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Exhibit 1

MUSTANG WATER COMPANY RCN AND RCND**Background of Water System**

Mustang Water Company received its Certificate of Convenience and Necessity on August 1, 1973. The area being served is approximately 1-1/2 miles west of the Junctions of Highway 90 and Highway 82 on Highway 82. The Certificated area serves the north central portion of Township 20S Range 19E Section 14. This is a subdivided area called Mustang Heights. The area is very rural with large parcel properties and small homes. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 70 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-054. The system consists of two well sites. Well site no. 1 is located on parcel 6 of the Cochise County assessor maps. It is 70 ft x 35 ft. or .059 acres in area. It has an inactive well on it. Well site No. 2 is located on Parcel 27 of the Cochise County Assessor's maps. It is 90 ft x 50 ft or .103 acres in area. This site has one well and one pressure tank. The fence surrounding the site has been torn down. The pressure tank is in very bad condition and has been welded in many locations. There is no flow meter. The original distribution system was made up of 2,700 feet of 6" asbestos cement pipe. Since then additional PVC piping has been added.

This system is in very poor condition. There are no storage tanks or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The pressure tank is dangerous and should not be in service. The electrical panels need replacement. The fence is gone. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

Staff considers the pressure tank and fence as being not used and useful and therefore has no value. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled. Storage and booster pumps must be added. The current interim management has installed a new well pump. It is questionable whether the well site is large enough for a storage tank to be added. This might require the purchase of more land.

Account Name		Description		Quantity		Unit Cost		Total Cost		Total	
No.	Name	Installed	Unit Cost	Quantity	Unit Cost	Total Cost	Total	Quantity	Total	Quantity	Total
301	Organization										
303	Land & Land Rights										
	70' x 35' Site 1 - .059 acres					\$5,000.00					\$5,000.00
	50' x 90' Site 2 - .102 acres		unknown								
304	Structures & Improv.										
	Fence 50 ft x 50 ft - 188 LF Site 2	1973	Damaged		\$2,829.40			30	\$0.00		
	12 ft wide gate		Damaged		\$766.70			30	\$0.00		
307	Wells & Springs										
	Well 2, 8" x 450' 65 gpm ADWR 55-807770	1973	\$40.00		\$11,250.00			30	\$0.00		
	Well 1, 8" x 450' Capped	1973	not used		\$0.00			30	\$0.00		
311	Pumping Equipment										
	Well 2, 25-Hp Sub.	2005			\$8,215.71			8	\$8,215.71		
	Electrical panel	1973	\$5,000.00		\$5,000.00			8	\$0.00		
330	Distribution Reservoirs										
	3,000 gallon pressure Site 2	1973	Damaged		\$13,000.00						\$0.00
	(5.5' dia X 16' L)										
331	Trans. & Distrib. Mains										
	6" PVC/ACP, 2,700 ft.	1973	\$7.26		\$19,602.00			50	\$7,056.72		
333	Services										
	3/4", 60 each (Use 70)	1973	\$355.00		\$24,850.00			30	\$0.00		
334	Meters										
	5/8" x 3/4", 60 each (Use 70)	1973	\$85.00		\$5,950.00			12	\$0.00		
					\$96,463.81						\$20,272.43

Exhibit 2**CRYSTAL WATER COMPANY RCN & RCND****Background of Water System**

Crystal Water Company received its Certificate of Convenience and Necessity on December 13, 1978. The area being served is approximately one mile West of the Junctions of Highway 90 and Highway 82 on Highway 82. It is adjacent to the Mustang Water Company. The Certificated area serves a portion of Township 20S Range 19E Sections 13 & 14. The area is very rural with large parcel properties and small homes. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 195 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-074. The system consists of one active well site. At one time there was a second well site, but it was abandoned. The active well site is located at Sands Ranch Road and Black Road. It is 18 ft x 27 ft. or .01 acres in area. This site has one well and one pressure tank. The pressure tank is a converted sand filter and is in very poor condition. There is no flow meter. The original distribution system was made up of 300 ft of 4 inch PVC, 950 ft of 3 inch PVC, 2,500 ft of 2 inch PVC and 4,000 ft of 1, 1-1/2, 2 inch asbestos cement pipe. Since then additional PVC piping has been added. There is a chain link fence surrounding the site.

This system is in very poor condition. There is no storage tank or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The pressure tank is a converted sand filter. It is in poor condition and is dangerous and should not be in service. The electrical panels need replacement. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

Staff considers the pressure tank as being not used and useful and therefore has no value. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled. Storage and booster pumps must be added. It is questionable whether the well site is large enough for a storage tank to be added. This might require the purchase of more land.

DECISION NO. _____

Acct. No.	Acct. Name	Particulars	Year	Salts	Services	Fund
No.				POB	Lib	
301	Organization					
303	Land & Land Rights	18' x 27'		\$2,500.00		\$2,500.00
304	Structures & Improvements					
		Well 2, - 78 LF facing	1978	\$15.05	\$1,173.90	30 \$117.39
		12' Wide Gate	1978	\$767.00	\$767.00	30 \$76.70
307	Wells & Springs					
		Well 1, 6' x 36"	1969	not used	\$0.00	30 \$0.00
		Well 2, 6' x 36" ADWR 55-807774	1973	\$40.00	\$14,000.00	30 \$0.00
311	Pumping Equipment					
		Well 2, 25-Hp Sub. @ 300 gpm	2005		\$5,878.00	8 \$5,878.00
		Electrical panel	1978		\$5,000.00	8 \$0.00
330	Distribution Reservoirs					
		2,000 gallon pressure 4.5h x 19'dia		Damaged	\$9,000.00	20 \$0.00
331	Trans. & Distrib. Mains					
		1'-1-1/2" 2'-ABS, 4,000 ft.	1969	\$3.47	\$13,880.00	50 \$3,886.40
		2'-PVC, 2,500 ft.	1969	\$3.96	\$9,900.00	50 \$2,772.00
		3'-PVC, 950 ft.	1973	\$4.95	\$4,702.50	50 \$1,682.90
		4'-PVC, 300 ft.	1973	\$5.37	\$1,611.00	50 \$579.96
333	Services					
		3/4", 51 each (Use 194)	1978	\$355.00	\$68,670.00	30 \$0.00
		1", 3 each	1978	\$405.00	\$405.00	30 \$0.00
334	Meters					
		5/8" x 3/4", 51 each (Use 194)	1978	\$85.00	\$16,490.00	12 \$0.00
		1", 3 each	1978	\$205.00	\$205.00	12 \$0.00
					\$154,382.40	\$17,503.35

DECISION NO. _____

Exhibit 3**SIERRA SUNSET WATER COMPANY RCN AND RCND****Background of Water System**

Sierra Sunset Water Company received its Certificate of Convenience and Necessity on June 26, 1978. The area being served is at the northeast corner of the junctions of Highway 90 and Highway 82. The Certificated area serves the northern half of section 18, Township 20S, Range 20E. The area served is comprised of small homes on small lots. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 30 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-055. The system consists of one active well site. The site is 30 ft x 40 ft. or .028 acres in area. This site has one well and one pressure tank. The pressure tank is a small 180 gallon bladder tank which was recently installed to replace a 1,000 gallon pressure tank which had exploded. There is no flow meter. Staff estimates there is approximately 2,500 ft of 4 inch diameter pipe in the distribution system. There is a chain link fence surrounding the site, but it is in disrepair.

This system is in very poor condition. There is no storage tank or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The electrical panels need replacement. The pressure tank is too small. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

There is a damaged and abandoned 1,000 gallon pressure on site which Staff considers not used and useful and therefore has no value. A new 180 gallon pressure tank has been installed. This tank is too small to be any good to the system once a new owner takes over. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled. Storage and booster pumps must be added. It is questionable whether the well site is large enough for a storage tank to be added. This might require the purchase of more land.

Acct. No.	Acct. Name	Plant Items for Serna Sunset Water Company	Year Installed	Unit Cost	Staffs PCN	Service Life	PCN
301	Organization						
303	Land & Land Rights	30' x 40'			\$500.00		\$500.00
304	Structures & Improvements	Fence 128 LF	1978	\$5.05	\$646.40	30	\$64.64
		12' Wide gate			\$767.00	30	\$76.70
307	Wells & Springs	Well 1, 8" x 350' 30 gpm	1960	\$40.00	\$14,000.00	30	\$0.00
		ADNR 55-807772					
311	Pumping Equipment	Well 1, submersible 15 hp	2004		\$6,500.00	8	\$6,500.00
		Electrical panel	1978		\$5,000.00	8	\$0.00
330	Distribution Reservoirs	180 gallon pressure	2004		\$4,680.00	20	\$4,680.00
331	Trans. & Distrib. Mains	4" 2500 ft (Est.)	1978	\$5.37	\$13,425.00	50	\$6,175.50
333	Services	3/4" 30 ea.	1978	\$355.00	\$10,650.00	30	\$1,065.00
334	Meters	58" x 3/4" (None)		No Meters	\$0.00	12	\$0.00
		3/4" (None)					
					\$56,168.40		\$19,061.84

DECISION NO. 1

Exhibit 4**CORONADO ESTATES WATER COMPANY RCN & RCND****Background of Water System**

Coronado Estates Water Company received its Certificate of Convenience and Necessity on April 27, 1959. The area being served is at the southeast corner of the junctions of Highway 90 and Highway 82. The Certificated area serves the southern half of Section 18 and the northwest tip of Section 19, Township 20S, Range 20E. The area served is comprised of modest homes on average sized residential lots. Some roads are paved with asphalt while others are unimproved dirt and gravel.

Description of System

This system currently serves approximately 195 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-013. The system consists of one active well site. The fenced site is 50 ft x 50 ft. or .057 acres in area. There is additional land west of the fenced area which may belong to the water system. This site has one well and one pressure tank. The pressure tank is 2,500 gallons. There is no flow meter. There is a 30,000 gallon storage tank which is damaged and not in use. It will have to be removed. Staff estimates there is approximately 34,500 ft of 4 inch diameter asbestos cement and PVC pipe in the distribution system. There is a chain link fence surrounding the site, but it is in disrepair.

This system is in very poor condition. The storage tank is damaged and there are no booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The electrical panels need replacement. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed.

Plant Condition

The system has only one well and one pressure tank. Storage tanks and booster pumps will have to be added. The fence is damaged and will have to be repaired or replaced. The damaged storage tank that is on site will have to be cut up and removed. A large portion of the distribution system will have to be replaced. The well site will have to be completely redesigned and rebuilt to new standards. A new well will most likely have to be drilled and equipped.

DECISION NO. _____

[illegible]

Exhibit 5**MIRACLE VALLEY WATER COMPANY, INC. RCN & RCND****Background of Water System**

Miracle Valley Water Company, Inc. received its Certificate of Convenience and Necessity on August 12, 1959. The area being served is located approximately 12 miles southeast of Sierra Vista on Highway 92 in Miracle Valley. The Certificated area serves the southern half of Section 31, Township 23S, Range 22E. The area served is comprised of modest homes on medium and large sized residential lots. The roads are unimproved dirt and gravel.

Description of System

This system currently serves approximately 255 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-023. The system consists of one active well site and one well site which has electrical power to it but no approval for use on the system. In addition, Mr. McLain contends that the second well site belongs to the Cochise Water system. The active well site consists of a pressure tank and a well. The well is fenced in a 12 ft x 12 ft area. A 5,000 gallon pressure tank is located outside the fenced area. There is no flow meter. There is no storage tank or booster pumps. The well pump was replaced in 2004. It is reported that there are 9,650 ft of 3 inch diameter and 14,750 ft. of 4 inch diameter distribution piping. The second well site has a well with a pump in it, but the well has never received Arizona Department of Environmental Quality ("ADEQ") approval. There is also a large steel vessel which was moved to the site to someday be used as storage. There is a chain link fence surrounding the site, but it is in disrepair. According to the assessor office records, there appears to be more than one piece of land belonging to the water system.

This system is in very poor condition. There is no storage tank or booster pumps. This requires the well pump to cycle on and off frequently which causes premature failure of the well pump. The pressure tank is in poor condition and it is dangerous and should not be in service. The electrical panels need replacement. The system has frequent line breaks. There are low pressure problems. There are poor or nonexistent records of where the distribution system is installed. Much of the system was installed without ADEQ approval.

Plant Condition

The system has only one well and one pressure tank. Storage tanks and booster pumps will have to be added. It is unknown whether there is enough room for a storage tank at well site 1. The well site will have to be completely redesigned and rebuilt to new standards. Well site 2 will have to be completely rebuilt. A large portion of the distribution system will have to be replaced.

DECISION NO. _____

Acct. No.	Acct. Name	Plant Items for Miracle Valley Water Company	Year Installed	Unit Cost	Staff's RCN	Service Life	RCND
301	Organization						
303	Land & Land Rights						
		12' x 12' Site 1					
		100' x 100' Site 2			\$2,500.00		\$2,500.00
304	Structures & Improvements						
		Fence 45' LF Site 1	1959	\$15.05	\$677.25	30	\$0.00
		3' Wide Gate	1959		\$257.00	30	\$0.00
		Fence 388 LF Site 2	1959	\$15.05	\$5,839.40	30	\$0.00
		12" Wide Gate	1959		\$767.00	30	\$0.00
307	Wells & Springs						
		Well 1, 16" x 650' Site 1	1959	\$80.00	\$52,000.00	30	\$0.00
		Well 2 8" x 305' Sub. Site 2		\$40.00	\$12,200.00	30	\$0.00
311	Pumping Equipment						
		Well 1, 50-Hp sub. @ 300 gpm Site 1	2005		\$6,855.00	8	\$6,855.00
		Electrical panels	1959		\$5,000.00	8	\$0.00
		Well Site 2		not used	\$0.00	8	\$0.00
330	Distribution Reservoirs						
		5,000 gallon pressure tank (6' dia x 22 ft L)	1959	Damaged	\$20,000.00	50	\$0.00
331	Trans. & Distrib. Mains						
		2" - 3", 9,650 ft.	1959	\$3.96	\$38,214.00	50	\$3,057.12
		4", 14,750 ft.	1959	\$5.37	\$79,207.50	50	\$6,336.60
333	Services						
		3/4", 228 each (Use 253)	1959	\$355.00	\$89,815.00	30	\$0.00
		2", 2 each	1959	\$600.00	\$1,200.00	30	\$0.00
334	Meters						
		5/8" x 3/4", 127 each (Use 152)	1959	\$85.00	\$12,920.00	12	\$0.00
		3/4", 101 each	1959	\$165.00	\$16,665.00	12	\$0.00
		2", 2 each	1959	\$915.00	\$1,830.00	12	\$0.00
					\$345,947.15		\$18,748.72

DECISION NO. _____

Exhibit 6**HORSESHOE RANCH WATER COMPANY RCN & RCND****Background of Water System**

Horseshoe Ranch Water Company received its Certificate of Convenience and Necessity on August 3, 1973. The area being served is located approximately 8 miles south of Sierra Vista on Highway 92 at Hereford Road in Cochise County. The Certificated area serves part of the northwest quarter of Section 17, Township 23S, Range 21E. The area served is comprised of two platted subdivisions of approximately 40 acres each. Another 40 acres area is comprised of various size parcels of land. Horseshoe Ranch subdivision consists of 68 mobile home lots. Circle S Ranch Estates consists of 76 residential lots. The roads in the two subdivisions are paved. The remainder of the roads are dirt.

Description of System

This system currently serves approximately 220 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-048. The system has no wells and receives its water through 5,600 Lineal Feet of 4 inch diameter transmission main from Cochise Water. The water from the Cochise Water system enters the main storage and booster site through a 2-inch meter. The main site consists of a 22,000 gallon and a 10,000 gallon storage tank, a 3,000 gallon pressure tank, a 7.5 hp and 5 hp booster pumps and a 20' x 28' brick shed. The area is fenced. A second fenced site contains a 38,000 gallon storage tank which was installed in 1989. A third site contains a dry well. There is approximately 35,000 feet of distribution piping. Much of the distribution system installed outside of the two subdivisions is undersized PVC. There are low pressure problems.

Plant Condition

The storage tanks at the main storage site appear to be in satisfactory condition, but need to be drained, inspected, and coated. The pressure tank should be inspected and possibly replaced. The electrical wiring at the site is old and needs replacement. There were piping leaks at the booster pumps during the inspection. The 38,000 gallon storage tank needs to be drained, inspected and refurbished. The only way this tank will provide improved pressure for the customers at the highest elevations is if the distribution piping is reconfigured and a pressure tank and booster pumps are installed to serve the upper zone. The dry well site is not used and useful. Much of the distribution system installed in the unsubdivided areas is undersized and poorly installed and will have to be replaced.

DECISION NO. _____

Acct. No.	Acct. Name	Plant Items for Horseshoe Ranch Water Company	Year Installed	Unit Cost	Staff's RCN	Service Life	Staff RCND
301	Organization						
303	Land & Land Rights						
		12' x 40' Main storage tank site			\$3,000.00		\$3,000.00
		3' x 20x14x 22.8" Sark's well site			\$3,000.00		\$3,000.00
		82x75' storage site 3			\$3,000.00		\$3,000.00
		104-58-041B			\$6,000.00		\$6,000.00
304	Structures & Improvements						
		20' x 28' brick shed main site	1973		\$16,342.00	30	\$0.00
		188 L F Fence Main site	1973	\$15.05	\$2,829.40	30	\$0.00
		12' Wide Gate	1973		\$767.00	30	\$0.00
		57 LF fence Sark's Well Site	1973	not used	\$0.00	30	\$0.00
		3' Wide Gate	1973	not used	\$0.00	30	\$0.00
		108 L.F fence site 3	1990	\$15.05	\$1,806.00	30	\$903.00
		12 Wide Gate	1990		\$767.00	30	\$383.50
307	Wells & Springs						
		Interconnection to Cochise					
		5,600 LF 4" PVC	1990	\$5.37	\$30,072.00	50	\$21,050.40
		Sark's well Abandon	1973	not used	\$0.00		\$0.00
311	Pumping Equipment						
		7-1/2-Hp booster pump Main site	2000		\$2,500.00	8	\$937.50
		5-Hp booster pumps, 2 each Main sit	2000		\$1,500.00	8	\$562.50
330	Distribution Reservoirs						
		38,000 gallon storage tank	1989	Needs Rep	\$25,000.00	45	\$16,111.11
		12' dia x 45' high site 3					
		22,000 gallon storage tank Main site	1973		\$30,000.00	45	\$8,666.67
		48.5' circum. X 16' high					
		10,000 gallon storage tank Main Site	1973		\$20,000.00	45	\$5,777.78
		30.5' circum. x 17' high					
		3,000 gallon pressure tank 5'x20"L	1973		\$13,000.00	20	\$0.00
331	Trans. & Distrib. Mains						
		2"-PVC, 11,050 ft.	1973	\$3.96	\$43,758.00	50	\$17,503.20
		3"-PVC, 11,600 ft.	1973	\$4.95	\$57,420.00	50	\$22,968.00
		4"-AC & PVC, 10,150 ft.	1973	\$5.37	\$54,505.50	50	\$21,802.20
333	Services						
		3/4", 192 each (Use 220)	1973	\$355.00	\$78,100.00	30	\$0.00
334	Meters						
		5/8" x 3/4", 112 each (Use 220)	1973	\$85.00	\$18,700.00	12	\$0.00
		3/4", 80 each	1973	\$165.00		12	\$0.00
335	Hydrants						
		Fire hydrant, 1 each	1973		\$750.00	50	\$300.00
					\$412,816.90		\$131,965.86

DECISION NO. _____

Exhibit 7**COCHISE WATER COMPANY RCN & RCND****Background of Water System**

Cochise Water Company received its Certificate of Convenience and Necessity on October 31, 1962. The area being served is located approximately 8 miles south of Sierra Vista on Highway 92 at Hereford Road in Cochise County. The Certificated area serves the northeast quarter and southern half of Section 5 as well as the northern half and southeast quarter of Section 8, Township 23S, Range 21E. The area served is comprised of platted subdivisions which contain lots of various sizes from one acre to five acres as well as numerous un-subdivided parcels. All roads are unpaved gravel or dirt.

Description of System

This system currently serves approximately 370 customers and is regulated by the Arizona Department of Environmental Quality as Public Water System No. 02-011. The system has two main storage and production sites. The Naranja site consists of four wells, a 170,000 gallon storage tank, a 5,000 gallon pressure tank, two 5-hp booster pumps, two 10 hp transfer pumps to transfer water to the Horseshoe Ranch system. The area fence has been torn down. There is a 12,000 gallon storage tank that is not connected to the system. The Jaxel Road site consists of one well, one 10,500 gallon storage tank, one 1,000 gallon pressure tank, and one 5 hp booster pump. The area is fenced. There is approximately 100,000 feet of distribution piping. There are low pressure problems in some areas.

Plant Condition

The storage tanks, pressure tanks and booster pumps at the main Naranja production and storage site appear in satisfactory condition. It is 4.7 acres in size. The wells have had numerous outages. The wells were drilled as domestic wells with small diameter casings which makes them difficult to equip and maintain. New wells will most likely have to be drilled. The Jaxel Road site is in fair condition. Much of the distribution system is undersized and should be replaced over time.

[illegible]**DECISION NO.**